

VZCZCXRO4263
PP RUEHCHI RUEHDT RUEHFK RUEHHM RUEHKSO RUEHNAG RUEHNH RUEHPB
DE RUEHHI #1242 3110547
ZNR UUUUU ZZH
P 060547Z NOV 08
FM AMEMBASSY HANOI
TO RUEHC/SECSTATE WASHDC PRIORITY 8695
INFO RUEHHM/AMCONSUL HO CHI MINH 5268
RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC

UNCLAS HANOI 001242

SENSITIVE
SIPDIS

STATE FOR EAP/MLS MBROWN
SINGAPORE FOR TREASURY
TREASURY FOR SCHUN
USTR FOR DBISBEE

E.O. 12958: N/A
TAGS: [ECON](#) [PGOV](#) [EAID](#) [VM](#)
SUBJECT: Vietnam Macroeconomic Update - Week of November 3

Ref: A) Hanoi 1206
B) Hanoi 377

¶1. (U) Summary: Signaling a shift toward mitigating the effects of the global financial crisis, the State Bank of Vietnam cut the base interest rate again, this time to 12 percent. Total registered foreign direct investment for the year to date increased to \$59.3 billion, up 429% against the same period last year, but disbursed capital was only 15.3% of total registered FDI. The State Securities Commission said it would avoid market intervention for now. End Summary.

State Bank Cuts Rates Again

¶2. (U) On November 3 the State Bank of Vietnam (SBV) cut the base interest rate for the second time in two weeks (reftel A), this time from 13 to 12 percent. As a result, the new official cap for lending rates is now 18 percent, down from the previous 19.5 percent. The SBV also cut the discount rate to 11 percent from 12 percent and the re-financing rate to 13 percent from 14 percent. At the same time, the Bank also lowered the reserve requirement ratio by 1 percent for Dong deposits and 2 percent for foreign currency deposits. The adjustments took effect on November 5.

¶3. (SBU) In its announcement, the SBV signaled a shift towards mitigating the effects of the global financial crisis, stating that its actions follow the Government's instructions on "continuing to control inflation, proactively preventing economic slowdown, ensuring social security, macroeconomic stability and sustaining reasonable growth." Despite recent GVN comments about the health of the Vietnamese banking system, the SBV also asked financial institutions to restructure the repayment schedules of loans which were overdue due to "impacts of the global financial crisis."
(Comment: SBV Governor Giau recently put the percentage of non-performing loans at 4 percent, but local analysts are skeptical of this figure. End Comment.) While the SBV's official exchange rate remained at 16,512 on the day following the moves, black market rates went up to 17,000 (buying at 17,000 and selling at 17,100) and interbank rates were at the top of the trading band (16,830-16,840).

Registered FDI Way Up, Implementation Lags

¶4. (U) According to figures from the Ministry of Planning and Investment (MPI), Vietnam attracted \$59.3 billion in total registered FDI over the past ten months, an increase of 429% against the same period last year. Of the total amount, \$32.5 billion were in industry and construction (with 512 projects), the services sector attracted 400 projects at \$25.6 billion and the remaining

\$222.4 million went to agriculture with 41 projects. However, disbursed capital, though up in absolute terms, remained low at about \$9.1 billion or 15.3% of total registered FDI. The gap between registered capital and implemented capital seems to be increasing. FDI disbursement made up between 50 and 80 percent of the nation's newly registered capital in the 2000-2005 period, then fell to 40.1% (\$4.1 billion out of \$10.2 billion) in 2006, and 21.3% (eight billion out of 21.3 billion) in 2007.

SSC Avoids Intervention, For Now

¶5. (U) In a recent press interview, the Head of the Market Development Division for the State Securities Commission (SSC), Dr. Nguyen Son, stated that the SSC will not revert back to narrower daily trading bands or SCIC purchases to stabilize the market (reftel B). Instead, he said, the SSC is recommending that the collection of personal income tax on securities investors be delayed and that supervision of financial institutions, banks and securities firms be tightened. He minimized the market impact of sales by foreign investors, saying that net bond and share sales of close to \$1 billion "are not really big" and will not have serious consequences on the domestic market. Son did, however, reserve the right to take "necessary measures" if the market plunges, adding that the SSC has drafted a risk management and crisis response plan for such situations.

¶6. This message was cleared by Ho Chi Minh City.

MICHALAK